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Report Highlights:

As China's economy has rapidly expanded, so has its entertainment sector—particularly in the large, first-tier cities. When purchasing for home consumption, Chinese tend to focus their purchasing decisions on the price of a product and buy whatever is the least expensive. However, when choosing an alcoholic beverage for consumption in a public place, Chinese consumers generally focus on quality, taste, and the image of the drink. The keys to success in this competitive and fragmented market are taste and marketing. Light and/or sweet tasting beverages appeal most to the Shanghianese palate and the marketing must convey a message of wealth and success.

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Executive Summary

Introduction

As China's economy has expanded rapidly, so has its entertainment sector—particularly in the large, first-tier cities. The Chinese now have more and more disposable income and are showing their willingness to spend it on amusing themselves, especially the younger generation. The country's economic growth has also led to an increase of foreigners both working and vacationing. In recent years, new bars, restaurants, discos, theme bars, and karaoke bars have been springing up in all the major urban areas to try to meet this burgeoning entertainment need. Shanghai, which has historically determined what is chic for the rest of China, has been at the forefront of the nightlife explosion. Most outlets can be categorized into one of three groups: restaurant/bars & pubs, discos/nightclubs, and karaoke bars. The clientele at these establishments is varied. Restaurants and pubs usually cater to either foreign or local tastes, although many are popular with both groups. Discos and nightclubs tend to have a majority local clientele, with some foreign patrons, and karaoke bars are a particularly Asian institution rarely frequented by a foreigner (who is most likely there fulfilling some social obligation and not by choice).

Market Trends

Spirits

Almost every type of imported spirit and liqueur can be found in China. Cognac and Scotch are popular among male businessmen as a drink of status. Cognac sales peaked a few years and have been dropping recently as the Chinese have found other drinks that they also equate with status, like red wine and high-end, single malt scotches. Chinese do not consume large amounts of high proof alcohols, but when they do they generally prefer vodka, tequila, or gin which can easily be 'cut' with a soft drink, fruit juice, or other mixer.

Wine

The imported wine market has exploded in China in recent years, particularly for red wines which went from virtually no cases sold at the beginning of the decade to over 300,000 cases in 1996. The Chinese wine palate remains uneducated and unaccustomed to the taste of quality wine, although wine sellers are starting to see a move away from the sweeter tasting wines to the more high-end, dryer tasting wines. Overall, per capita wine consumption in China is very low, but the market's potential is clearly enormous.

Beer

China is currently the world's second largest beer market and is set to supplant the United States as the number one beer market at the turn of the century. Per capita beer consumption in China still lags behind world averages, but is believed to rise as the population's income increases and becomes more receptive to Western influences. The beer market is highly fragmented, with national and international brands competing heavily with more established regional brands for market share. Most major brewers have set up joint-venture (JV) breweries in China to lower their margins and become more competitive. Imported beers are usually sold at prices competitive with local brews at on-premise outlets, but at higher prices in retail outlets.

Patrons

Most Shanghainese can not sit still in a bar for more than a few hours, or for more than a few drinks. The vast majority generally visit 2-3 establishments in the course of an evening and some can hit up to 5-6 before calling it quits for the night. There are a few nightspots in Shanghai that

cater to the ‘late-night crowd.’ These establishments do not get busy until after midnight and usually stay crowded until sunrise.

General Trends

Most Chinese consumers regard foreign imported drinks and alcohols as having a higher quality, taste, and social status over competitive domestic products, and are conscious of these factors when purchasing drinks on-premise. Other factors that have an impact on Chinese purchasing decisions include price, health benefits, color, and ‘gimmicks’ that require a special way to drink the beverage, like tequila shots (salt, drink, fruit), or putting a piece of fruit into a Corona beer bottle. Chinese consumers prefer light tasting beverages that come in clear, feminine (long, taped neck) packaging.

China suffers from an underdeveloped and under-regulated distribution system. Many alcoholic beverages are smuggled into the country from Hong Kong via a ‘gray channel’ and thus, the statistics on alcohol importation and consumption are not completely accurate. It is widely acknowledged that the real importation and consumption of alcohol products exceeds the reported figures.

Spirits

Restaurants, Bars, & Pubs

Restaurants, bars, and pubs are most popular with foreigners and younger Chinese (men and women under 40) who are educated and frequently working for a foreign owned or JV company. At most restaurants and pubs clear spirits (vodka, gin, and tequila) sell best. Finlandia, Stolichnaya, Smirnoff, Absolut, Beafeater, Gilbeys, Gordons, Tanquery, Suaza, & Jose Cuervo (white and black) are all readily available. These drinks are almost always served with a mixer (e.g. screwdriver, gin & tonic, and tequila slammers). They are usually priced competitively with beer and other drink options, except non-alcoholic drinks, which are always RMB 10-20 cheaper than alcoholic drinks. When a customer does order a bourbon or scotch, it is usually a Jack Daniels or Johnnie Walker (red or black). Jack Daniels has a strong association with America that helps its image and sales. Likewise, Johnnie Walker is considered to be a quality scotch, although Chivas is considered more upscale than either Jack Daniels or Johnnie Walker. The Shanghai market spends approximately US\$25.8 million a year on spirits. On average, spirit sales account for approximately 15-20% of the total alcohol sales at these types of outlets. Drinks with a single shot of alcohol generally retail for around RMB 30-45 (USD 3.60-5.40), depending on the product and the outlet.

Chinese women are not big drinkers. Many do not even drink alcoholic beverages when they go out to eat or to a bar and consume mineral water, soft drinks, or fruit juices instead. When they do drink spirits, they prefer light tasting beverages where the taste of the alcohol is masked. Long cocktails, which are mixed with fruit juice, soda, or tonic, are becoming increasingly popular among female Chinese consumers. These drinks are considered to be healthier and the taste of the actual alcohol is disguised. The most popular cocktails are Pink Ladies, Margaritas, Pina Coladas and Singapore Slings—‘anything big, fruity, and gimmicky’ sells better, according to local bartenders.

Rum and Coke is also a popular spirit drink. Specialty products, like Bacardi’s Jazz drinks,

Stinger, and alcoholic lemonades are trying to enter the market with mixed success. These types of drinks tend to be more popular with females than males. They tend to be lighter tasting beverages packaged in clear, feminine bottles to attract the Chinese consumer.

Marketing drinks in China is an essential element to their success. Many companies spend money on both above and below the line advertising to increase their sales. Most companies have 'promotion girls' (age 16-21) that dress in tight clothing and go to an establishment on a predetermined night to try and 'persuade' the customers to drink their product. The effectiveness of this style of promotion is debatable. The companies who sponsor them usually report that they are effective in boosting the sales for their product on the nights they work, but the managers of most outlets say that even if that is true, there is no appreciable sales boost and they have no long term effect. Managers also report that these young women are generally not highly product or industry knowledgeable and generally lazy—performing their duties in a perfunctory manner. However, most drinks companies feel that it is important to focus their marketing campaigns towards men; men spend more money on drinks than women and are the decision makers in buying alcohol. Point Of Sale items, sales volume promos, and special discount nights are other effective marketing strategies employed by drinks companies in China.

The most important factor in introducing a new product in China is price. If a product can not retail for a price considered reasonable for its value, than its chances of surviving in the marketplace are slim. In general, Shanghainese will not spend RMB 40-50 to try a product, but they will try it at RMB 25-35. Products like Bacardi Jazz and Stinger must eventually be made in China if their manufacturers are going to make a profit. Many sellers believe that manufacturing in China will not hurt the image of these specialty products because the Chinese are used to seeing premium foreign beers become localized. However, products like Bacardi Rum, Jack Daniels, and Cognac must remain imported to support the premium aspects of their marketing campaigns.

Discos & Nightclubs

Discos and nightclubs are less popular with foreigners than restaurants and bars and are dominated by young Chinese, the majority of whom are under 35. There are a few middle aged Chinese men who enjoy frequenting these types of establishments, but they usually prefer to sit at a private table or booth and not dance. Clear liquors sell better at discos and nightclubs than the darker liquors. However, consumers at these places are a little more concerned with the status of what they are drinking than their counterparts at the typical restaurant/bar or pub. So these places sell more Chivas than the bars or pubs, where Jack Daniels and Johnnie Walker account for most of the bourbons and scotches being sold.

Cognac and scotch continue to sell better in discos and nightclubs than in restaurants and pubs. The atmosphere in these outlets caters more towards the wealthier businessmen who enjoy the status gained from drinking higher priced, sophisticated alcohol. Many of these places have special cabinets where they store patrons' personal bottles of XO, Napoleon, and Chivas. The names of the owners are written on a tag and displayed for all those who pass by the cabinet to see. Remy (VSOP & XO), Courvossier, and Hennessy are the most popular brandies and cognacs, retailing from RMB 40-60 per glass and RMB 600-1200 per bottle.

Tequila, especially shooters, remains popular in these establishments. Gin and vodka sales do

not account for as much of the spirit sales in the discos and nightclubs as they do in the bars and pubs, where the darker liquors (i.e. cognacs, whiskies, and scotch) grab a larger share of the overall spirits sales.

Karaoke Bars

Nearly all Chinese, enjoy Karaoke. The more upscale establishments are usually frequented by middle aged, wealthy Chinese businessmen who are entertaining clients. Mid level Karaoke bars are patronized by Chinese of all ages and societal backgrounds. Many Chinese enjoy meeting large groups of friends for a night of singing and snacking at their local KTV bar. Karaoke bars are where the higher end alcohols, cognacs, and scotches sell the best, although not quite as well as they used to. Red wine has encroached somewhat in this market as a status beverage. Karaoke is where many businessmen go to entertain clients and colleagues and it is often important for the host to make a show of spending a great deal of money on his guests. Most of the women in these establishments work for the bar as paid 'hostesses' who encourage the patrons to spend even more money. The 'hostesses' rarely drink alcohol. Like the discos and nightclubs, most karaoke bars have special cabinets to display their regular customers' personal bottles of cognac, brandy, and scotch.

Spirits account for a greater percentage of the overall bar sales at these outlets than they do at the bars or discos. Most carry a variety of brandies and cognacs (Metaxa, Remy, Courvossier, Hennessy, and Buscuit) as well as Scotches (Johnnie Walker—Red and Black, Dewers, Chivas, Famous Grouse, Grants, Glenfiddich, and Glenlivet) and bourbons (Jack Daniels, Jim Beam, Wild Turkey, and Makers Mark).

Despite the gains being made in the spirits market in China, not all alcoholic beverages sell well. Even though there has been recent success for liqueur cocktails, traditional 'digestive' liqueurs and aperitifs do not currently sell well in China. The lack of consumer knowledge about these products and their inability to 'mix' into big fruity drinks are the main reasons for their low sales. However, Benedictine is a popular beverage in China due to its purported health benefits for women who have recently given birth.

In the coming years, many owners and managers predict that cocktails will continue to gain in popularity in China, which means there will be an expanded market for mixers—tonic, soda, fruit juices, and special liqueurs. Jack Daniel's Lynchburg Lemonade could catch on in China, as could Zima given their clear feminine packaging and light taste, which appeal to the Chinese. Similarly, there will be a greater need for quality bar guns and syrups, which are currently not available in China. Coca-Cola manufactures some guns and syrups, but they are not high in quality and only dispense cola, soda, Sprite, and OJ and are not a full 9-beverage gun used in bars and restaurants in the West.

High-end vodkas and gins, like Bombay Saffire, should also have an increased demand given the Chinese consumers existing taste for these lighter drinks and predilection for 'status' beverage. Flavored vodkas, like Absolut's and Finlandia's, should also sell well. One local restaurant/bar has started making its own homemade flavored vodkas (by putting fruit into a $\frac{3}{4}$ full bottle) and report that most of their patrons who have tasted the product enjoy the taste.

Beer

Overview

China is currently the world's second largest beer market and many analysts predict that it will overtake the US as the largest beer market by the turn of the century. Both domestic and imported beers are seeing an increase in demand, even though per capita consumption of beer in China is well below the global average. The China beer market is highly fragmented and competitive, with very little consumer loyalty. Many international brewers have opened up domestic breweries in China during the past decade—Anheiser Busch, Asahi, Carlsberg, Suntory, Fosters, Becks, Heineken, San Miguel, and Lion Nathan to name a few. However, some of these companies (like Heineken and San Miguel) are still importing some of their brands as it has taken time for their domestic breweries to modernize to the point where they can begin producing their beers to meet international quality standards. Beer consumption in Shanghai is estimated to be approximately 210 million liters of beer per year, worth US\$172 million.

In general, Chinese consumers value foreign products for they are generally associated with quality, wealth, and higher social status. Beer is no different. Imported beers have a certain cache that many Chinese consumers are willing to pay for. Some of the more popular imported brands are Corona, Heineken, San Miguel, and Guinness. Other imports like Grolsch, Amstel, and Miller are not as popular. However, the Chinese consumer will not usually buy these brands for home consumption, preferring to drink them on-site with friends and colleagues so they can get the full status value from their purchase. At home, Chinese prefer the cheaper domestic or JV brews.

Chinese prefer the taste of lagers to heavy dark beers and tend to drink more beer in the summer than winter. Most brewers market their brands on television, which is considered a very effective advertising medium. Many brewers feel that it is important to establish the 'personality' of a beer with the consumers. According to market research conducted by one large European beer company, Chinese consumers place a great emphasis on a beer's 'personality.' They cite Carlsberg, Budweiser, Becks, and Heineken as beers that have effectively established an identity with the Chinese consumer. Carlsberg's more bitter taste reminds the Chinese of a European gentleman—tall, handsome, and strong. Budweiser has a more delicate, sweet taste and is associated with America and images of cowboys. Becks is considered healthy and refreshing—'like a heroic young man.' While considered a beer with high quality among those who are familiar with Heineken, its name has caused some confusion among Chinese beer drinkers. Heineken is known in Chinese by a phonetic translation "Hai Ne Kun" and by the name "Xi Li." This double identity is confusing to some. Many beer drinkers do not know if they are two different beers or the same. The name "Xi Li" has also hurt the beer's 'personality.' Many Chinese think it sounds more like the name for a soft drink and conjures up feminine images instead of strong male images. The origin of this problem is that Heineken's initial success in China was in Hong Kong more than ten years ago. The China character-based, Cantonese name for Heineken is "Hei Li", however when the same characters are pronounced in Mandarin they become "Xi Li". Thus, some product names that work in Hong Kong may not be as successful in other parts of China.

Restaurants, Bars, & Pubs

Most beer is consumed in restaurants, bars, and pubs than in any other type of outlets. Draft beers

sell the best, but imports do very well against the domestic beers as the high margins of these establishments make the price difference between domestics and imports negligible. Moreover, many Chinese try to impress their friends and colleagues by choosing a higher status, imported beer over a domestic. Corona is currently very popular with the Chinese. It's light taste, clear, feminine packaging, and fruit garnish are all very attractive to the Chinese consumer. Heineken and San Miguel are the next popular imports. Most draft beers retail at RMB 25-35, while bottle or can beer, both domestic and imported, retail at around RMB 30-40.

Most brewers spend a considerable amount of their below the line marketing effort on promotion girls that make 'the rounds' to Shanghai's many restaurants, bars, and pubs. As with the promotion of spirits, the effectiveness of these promotion girls remains questionable. Given the highly competitive nature of the beer industry and the lack of consumer loyalty, these promotions would seem to only be a good idea if the one night sales increase offset the cost of the promotion girls. Again, many outlet managers report that the promotion girls are not knowledgeable about the products they are pushing. One of the most successful beer promotions reported by a manager involved a beer company giving away one free bottle of their new import to every patron that walked into the bar during a two hour period. Most of these consumers bought the same brand for their second, third and fourth beers of the evening. Outlet managers report that two-for-one promotions tend to be quite successful also.

One of the most successful imported beer ventures in Shanghai is O'Malley's. This is an authentic Irish Pub that serves imported, draft Guinness and Kilkenny. The retail price for these beers is very expensive (RMB 70-80 per pint), but the sales are quite high and the owner/manager is opening a second outlet, "The Dublin Exchange", in Shanghai's burgeoning new financial district—Pudong. While many of O'Malley's customers are foreign expatriates, there are a number of Chinese customers purchasing pints of Guinness and Kilkenny alongside their foreign bar mates. If marketed correctly, Chinese will purchase high priced beers as long as they feel that they are getting a quality beer that has a high status value. In contrast, a local outlet that sells Belgian brands Duvel, Chimay, and Cuvee reports that the sales for these three brands are very poor. This is due mostly to the high retail cost (RMB 50) and lack of marketing support behind the beers. No one is familiar with the beers and there are no images or information on hand to convince them that the beers are high in quality and social status.

Another highly successful establishment with a beer focus in Shanghai is the Taiwanese-invested Paulaner Brau Haus. Paulaner is a franchise of the Munich-based Brau Haus, decorated in German beer hall motif—complete with authentic German cuisine and steins of their home brews. There is also a live band from the Philippines that plays current top-forty hits from abroad and China. While Shanghai has a few other micro- breweries, none of them match the Paulaner in terms of lively atmosphere or numbers of patrons per evening. Despite the high price of the beers (RMB 60 for a ½ liter and RMB 90 for a full liter) the Paulaner has been doing a very good business. With the right marketing, theme bars can be very successful in China.

Discos & Nightclubs

Imported beers in discos and nightclubs sell just as well as domestic brands. In some outlets, imports sell better than domestics. These establishments tend to be frequented by customers that have higher disposable incomes than the average Chinese, and their prices are higher than most restaurants, bars, and pubs. The difference in price between domestic and imported beers in

discos and nightclubs is usually no more than RMB 5-10, making it easy for image conscious consumers to purchase imports with greater ‘face’ value. Most discos and nightclubs offer a wide selection on domestic and imported beers. Draft beers sell well, but do not account for as high a percentage of the overall beer sales as they do at less expensive establishments. Corona is the most popular import, with Heineken and San Miguel running a close second and third. Corona is more popular with Chinese women, who do not normally drink much beer, because it has a light taste and is usually served with a slice of fruit in the neck of the bottle.

Corona beer is one of biggest success stories in China. The company itself offers virtually no marketing support to its distributors, and yet it is clearly the most popular imported beer in the Shanghai market. The combination of Corona’s packaging, lifestyle association and unique way of being served are all big hits with the Chinese consumer. The clear, feminine packaging is linked with light and refreshing beverages. Mexico offers images of beautiful sand beaches and clear blue water—a sort of paradise, in the minds of the Chinese consumer. As one foreign bartender in Shanghai put it, “Mexico is their Thailand.” Corona is traditionally served with a wedge of lemon or lime (which most Chinese have replaced with oranges) and offers a fruity taste that is more compatible with the Chinese palate. Thus, Corona appeals to Chinese consumers in all of their beer purchasing categories—it is priced competitively, offers an attractive lifestyle association and status, is light tasting, and when served with the traditional fruit garnish, has cachet.

Karaoke Bars

While beer is offered at just about every karaoke bar in China, it does not sell particularly well in these outlets. Karaoke bars tend to be places where the Chinese do most of their business entertaining and relationship building (guanxi). The ‘status’ quotient is very high in Karaoke bars and the host will pull out all the stops to impress his colleagues and/or business partners. More often than not, this means drinking an expensive bottle of cognac or scotch. Red wine is becoming recognizes more and more as a ‘high class’ beverage and is gaining in popularity in these places as well.

Given the overall competitiveness and fragmentation of the beer market in China, it is extremely difficult for a foreign brewery to make money exporting beer to China. However, with the right marketing campaign and packaging, imported beers can be successful. These would most likely be micro-brews or beers that come in clear long necked bottles, like Miller Genuine Draft. Even though most imports are priced competitively with domestics, they cannot compete with local beers’ production costs and the marketing support needed to promote these imports is also very costly. In the long run, to make it in China, “you have to produce here,” said a manager at one of the larger foreign beer companies in China. This will not hurt brand imaging, as many Chinese are used to seeing foreign beer companies open up brewing facilities on the mainland.

Wine

Overview

The market for wine in China has been growing at phenomenal rates over the past few years, particularly for red wines. While the numbers are staggering and the potential for wine in China enormous, the market is still underdeveloped. According to a recent ATO Shanghai/Gallup Survey, only 32% of Shanghainese have consumed grape wine (as opposed to rice

wine)—however, imported wines made up only 7% of the reported grape wine consumption in Shanghai. Unfortunately, imported wines are hampered by a limited distribution systems in China and a thriving black market.

French wines lead the import category in China. Red wine is increasingly seen as a healthy beverage—conferring such enviable personal characteristics like sophistication, education, wealth, and class upon the consumer. New-world wines from the United States, Argentina, New Zealand, and Australia follow behind.

The wine market in China is still in its very early stages. Chinese consumers prefer sweeter tasting wines, as is the case in most young wine markets. The Chinese have yet to develop a taste for wine and many consumers like to mix their wine with Sprite or 7-Up. The taste of wine, both red and white, is too strong (i.e. dry and sour) for many Chinese so they dilute it to make it more palatable. The Chinese wine consumer is typically a market follower, not a leader. They need to feel safe about the wine they are drinking and do not want to ‘lose face’ by choosing the wrong wine or admit that their knowledge of wine is extremely limited. Thus, it is important for wine companies to announce where their wine is from and why it is a quality wine. As one local wine distributor said, “There is no brand loyalty. So you need to explain your product in order to compete.” (*For more information, please see our “wine” market brief, CH8803.*)

White Versus Red

Many people make the mistake of reading the tremendous growth in red wine sales in China over the past few years as an indication that Chinese do not like or will not drink white wine. This is not true. Chinese have actually been drinking white wines for many years, so there was already an established level of consumption. Many in the wine industry have been swept up in the ‘red wave’ because the numbers are so enticing. It is important to keep in mind that the reason for the spectacular growth was the extraordinarily low numbers of pre-existing red wine drinkers in China. No domestic white wine producer has cut back on production. The world market of wine drinkers is split 60/40 (white to red) and many in the industry believe the Chinese market will eventually settle down to a similar ratio.

Restaurants, Bars & Pubs

Wine sales in restaurants have just recently begun to grow. Most Chinese do not consider wine to be a good beverage to accompany a meal. However, wine companies and distributors have started to target restaurants in their marketing campaigns and traditional attitudes are slowly starting to change. Another pre-conceived notion that is hurting wine sales in restaurants is the traditional notion that white wine only goes with chicken and red wine only with red meat. Most Chinese who drink wine have heard this and do not want to break this ordering ‘rule’ for fear that they might order the wrong wine in front of their friends and embarrass themselves. Moreover, that they know the ‘rule’ in the first place is a good way for them to appear knowledgeable about wine. Since meals at Chinese restaurants consist of many dishes served together, wine companies realize that this informal rule does not apply to the Chinese market and are faced with the task of further educating the Chinese wine consumer. As the upper and middle class Chinese consumers become more educated about wine, some importers predict that wine will become a dinner table staple. One local importer said, “China has a strong gastronomic tradition, so it’s probable that wine consumption will develop very quickly in restaurants. And if the Chinese really start drinking wine, the demand will explode.”

Most wine companies initially focused their sales and marketing efforts on large joint-venture hotels and luxury imported supermarkets catering to foreign residents, tourists, and the small group of local wine drinkers. However, since 1996 wine has become fashionable with young affluent Chinese—particularly in the key markets of Shanghai and Beijing. Long-term, wine producers and sellers are hoping that the China market will follow a learning curve similar to the other emerging Asian markets and become an increasingly sophisticated wine market that enjoys fine varietal wines and international quality standards. Already there are signs that this is happening. Many Chinese are becoming more savvy wine purchasers who would rather buy an expensive domestic wine over a cheap import because of the better taste and higher quality of the domestic. Many in the wine industry in China complain about the large number of cheap imported wines from France, Spain, and the United States that are flooding the market.

Discos & Nightclubs

Less wine is consumed in these outlets than in any other. The livelier dancing atmosphere is not conducive to sitting down and enjoying a bottle of wine. Wine consumption in discos and nightclubs has increased somewhat over the past few years, but not at the rates enjoyed by other entertainment establishments. Wine drinkers in discos and nightclubs almost always prefer to mix their wine with Sprite or 7-Up. Wine distributors have not focused much of their marketing and sales efforts on these outlets—contributing to the slow growth of wine consumption and lack of wine education.

Karaoke Bars

Karaoke bars are becoming one of the better venues in China for wine sales. Many Chinese now prefer red wine to Cognac and/or Scotch. According to one wine distributor in China, Cognac sales are declining in direct proportion to the increase in wine sales. Wine is increasingly being served at official functions and banquets, where stronger spirits, like Chinese white wine (*bai jiu*) used to dominate. Traditionally, these events feature dozens of toasts. At last year's historic handover of Hong Kong back to China, the leaders from China and the United Kingdom toasted each other with white wine. The Chinese government has been encouraging the consumption of grape wine for over a decade. This policy was originally initiated by the fact that traditional spirits consumption was draining the country's grain supply and causing an alarming increase in the number of alcohol abuse problems. Karaoke bars, which are a common place for business and government entertainment, have seen a great increase in the amount of wine being consumed on their premises. This is particularly true in the capital, Beijing.

The government's promotion of wine, while contributing to increased wine consumption in China has not been the driving force behind it. The key factors have been the life-style association, spurred by wealthy Hong Kongers and Taiwanese, and the health benefits that many Chinese associate with wine, which is particularly appealing to China's increasingly health-conscious, female population. As one wine promoter said, "The first reason wine has taken off in Asia has been men showing off. The second and bigger wave will be women drinking it because they like it. Women the world over prefer wine to spirits and beer and Asian women are no exception."

While wine sales have been experiencing tremendous growth in China over the past few years, there are still significant hurdles to entering the market. The major challenges facing imported

wine in China include high tariffs, uneven regulatory development, lack of distribution, and the influx of low-quality imported products. While there is a great potential for imported wine, it is important to keep in mind the risks and impediments along with the possible rewards.

As the wine market continues to mature, many in the industry expect that the criteria for a successful import in China will be the same as in other mature wine markets—quality, taste, and most important, image. The Chinese will likely move away from their preference for sweeter wines and develop a taste for higher quality, dry wines. Another wine related product that is compatible with the Chinese palate is wine coolers. The Chinese have added 7-Up and Sprite to both red and white wines for years—in essence making their own coolers. The fruity taste and clear feminine packaging, which is particularly attractive to women, of most wine coolers is an additional marketing benefit. If supported by the proper promotional campaign, wine coolers, like Bartyles & James, could sell very well in China.

Food

Restaurants, Bars, & Pubs

Unlike a few years ago, most types of bar food popular in the West can now be found in Shanghai. Almost every trendy restaurant and pub (see Appendix 3) in the city has items like French fries, quesadillas, onion rings, potato skins, and chicken fingers on the menu. Most of these items sell well, particularly French fries and quesadillas. Since there is no ‘face’ to be gained in ordering bar food, the key factors when deciding what to order are taste and price. If the taste of a food is compatible with the Chinese palate and the price is compatible with the Chinese wallet, then it should sell well in the China marketplace. Most restaurants and pubs are reluctant to offer any special snack items or price discounts because they are fearful that it might take away from their regular food services.

Karaoke Bars

The menus at most Karaoke bars are not that varied. The patrons come mainly to sing and drink, not to eat. The most common food items served in Karaoke bars are fruit plates. Interestingly, they offer an opportunity to fruit exporters. Karaoke bars are expensive places that serve expensive drinks and fruit plates that are ornately designed, with the pieces of fruit intricately sliced in special designs or animals. Many managers of these establishments offer imported fruit to their customers because they signify higher status, quality, and taste. A well known imported ice-cream from America is also becoming very popular in Karaoke bars. While the Chinese generally do not purchase imported foods at Karaoke, in some instances—like fruit and ice-cream—they feel it is worth it.

Discos & Nightclubs

Chinese tend to eat less in these establishments than at the other types of outlets. They are too busy dancing and drinking to worry about food. Also, most discos and nightclub have limited kitchens and only offer very basic food items—like dumplings, fried rice, and wonton soup. Most places that provide food will usually provide their patrons with some western choices as well—French fries, onion rings, and potato chips. However, the ‘late-night’ spots in Shanghai are usually dance places whose patrons get hungry after 4 or 5 hours of dancing. Food sales tend to pick up after midnight. One item that many managers of these establishments agree would probably sell well are frozen mini-pizzas. However, they must be priced competitively with

similar snack foods in order to be successful.

Conclusion

When purchasing for home consumption, Chinese tend to focus their purchasing decisions on the price of a product and buy whatever is the least expensive. However, when choosing an alcoholic beverage for consumption in a public place, Chinese consumers generally focus on quality, taste, and the image of the drink. Satisfying these needs usually requires purchasing imported beverages—whether they be liquor, wine, or beer. Given the great increase in the numbers and types of outlets trying to meet China's expanding nightlife demands, there is great opportunity for foreign alcoholic beverages in the China market. The keys to success in this competitive and fragmented market are taste and marketing. Light and/or sweet tasting beverages appeal most to the Shanghianese palate and the marketing must convey a message of wealth and success. Companies that manufacture such products should thoroughly investigate the opportunities that exist for them in China. Prior ATO Shanghai research indicates that the Shanghai market is a trend setter, but is overcrowded and fiercely competitive for some products. U.S. beverage manufacturers who are not already competing successfully in Shanghai may well find their marketing dollars better spent in second-tier Chinese cities. There the competition may be less intense and consumers may be less brainwashed by years of their competitors' advertisements and promotional activities.

Appendix 1: Average Retail Prices for Beverages in Shanghai at Popular Nightspots

<u>Product</u>	<u>Price (RMB)</u>	<u>Price (USD)</u>
<u>Vodka</u>		
Smirnoff	35	4.25
Stolichnaya	35	4.25
Finlandia	40	4.85
Absolut	40	4.85
<u>Gin</u>		
Beafeater	35	4.25
Gibleys	35	4.25
Bombay Safire	45	5.45
Gordons	35	4.25
Tanqueray	35	4.25
<u>Tequila</u>		
Suaza	35	4.25
Jose Cuervo	30	3.65
Jose Cuervo Gold	35	4.25
<u>Rum</u>		
Bacardi	35	4.25
Myers	35	4.25
Captain Morgan	35	4.25
<u>Scotch</u>		
J.W. Red	30	3.65
J.W. Black	40	4.85
Chivas	40	4.85
Dewers	35	4.25
Glenfiddich	45	5.45
J&B	35	4.25
J&B Jet	45	5.45
Grants	30	3.65
<u>Bourbon</u>		
Jim Beam	35	4.25
Jack Daniels	35	4.25
Old Granddad	35	4.25
Makers Mark	35	4.25
Wild Turkey	35	4.25
<u>Brandy/Cognac</u>		
Remy	45	5.45
Martell	55	6.65

Courvossier	50	6.05
Hennessy	50	6.05

Beer

Heineken	35	4.25
Corona	35	4.25
San Miguel	30	3.65
Grolsch	35	4.25
Guinness	40	4.85

Appendix 2: Leading Shanghai Distributors

<u>Company</u>	<u>Contact</u>	<u>Phone Number</u>
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Beer

Shanghai Fu Tai Bang (Beer)	Chen Jian Ting	1391734066 bp. 5696-5678x 27653
Fosters	Tom Condon	HK: 852-2848-8300
Lion Nathan	Steve Mason	6270-2511
Anheuser-Busch	Paul Davis	6249-1220
Grolsch	Boris Van Dreeck	6280-7692
San Miguel	Jonnel Mangubat	HK: 852-2912-9300
Heineken	Ronnie Yong	6427-2438

Liquor

Bei Dou Qi Xing (Liquor)	Yu Guo	9194-6833 bp: 6473-2299 x 10626
Royal Distillers International (liquors)	Walter Qian	6258-2582x6331
Remy (liquors)	John Yie Zhi Qing	6433-0187, 6467-0172
Bacardi	Drew Nuland	6466-0299 ext 888

Wine

Value Wine Shanghai	Stephen Russo	6464-0058
Montrose	Michael Parr	6468-6758

Food

McCain	Rene de Pauw	(010) 6404-4053
Shanghai Xinjing Western Style Food CO	Dirk Walter	9084886

Appendix 3: Popular Nightspots in Shanghai

<u>Establishment</u>		<u>Phone number</u>
Malone's	Shawn Doyle	6427-2400
Judy's Too	Paul Grey	6473-1417
O'Malley's	Rob Young	6474-4533
Yin Yang	Kenny Tang	6431-2668
Cotton Club	Christine Li	6437-7110
DD's	Luke Zhou	6280-8670
Park 97	Eamon Verberne	6372-1325
Sasha's	Chris	6474-6166, 6474-6629
Tequila Mamas	George Zhu	6433-5086
La Bouchon	Thierry Breton	6225-7088
Groove	Nicole	6471-8154
LA Café	Mr. Ji	6386-3900
Blue Ribbon Disco	Charlie	5306-9999
Time Disco	Jerry Chen	6327-5566
Total Disco	Simon Wu	6359-1636
Galaxy Disco	Mr. Lu	6275-2999 ext 2380
Cash Box	Mr. Wang	6374-1111
Gold Brave Guest Club	Ms. Fang	6215-3664
MGM	Henry Liu	6471-8154
Passion	Manny	6283-3575
Paulaner Brauhaus	Moe	6474-5700
Shanghai Sally's	Jack	6358-0738
Zoobaa	Larry	6415-1583
Hard Rock Café	Curly	6279-8133
Badlands	Shepp	6279-4334

Nightspots in Shanghai are subject to high staff turnover. The names on this list were nearly accurate as of August 1, 1998.